



**Global Banks Premium Income Trust – at close of business today we conclude the recirculation process for this fund.**

## Tax Matters

We have added all T3/T5 details on our funds onto the website – located from home page under the tab “ Products and Services” and then under the sub-tab ‘ Tax Matters”.

Link below:

[http://www.portlandic.com/Info.aspx?disp=fund\\_t3s](http://www.portlandic.com/Info.aspx?disp=fund_t3s)

## News Highlights on Current Holdings

- **Goldman Sachs** – The Securities and Exchange Commission ( SEC ) has sued Goldman Sachs ( GS), alleging fraud in the subprime CDO market, indicating GS should have disclosed conflicts of interest related to the creation of synthetic CDOs backed by subprime RMBS. SEC commenting “Goldman Sachs failed to disclose to investors vital information about the CDO, in particular the role that a major hedge fund played in the portfolio selection process and the fact that the hedge fund had taken a short position against the CDO.”
- It is alleged that the **Hedge fund Paulson & Co.** approached Goldman to structure a pool of mortgage securities it then intended to go short against and a Goldman Sachs Vice President agreed. The deal, called Abacus- 2007 AC1 ended up costing investors including European Banks, \$1 billion while netting Paulson a corresponding \$1 billion profit and Goldman \$15 million in fees.
- Link to press release below:
- <http://www.sec.gov/litigation/complaints/2010/comp-pr2010-59.pdf>
- As things currently stand, this action is a civil complaint, not a criminal complaint, implying that the downside is a large monetary fine and Paulson was not named as a party in the lawsuit. We understand this is the first time the SEC has brought a complaint alleging fraud on the part of a broker dealer in marketing investments on subprime mortgages and in our view imposes onto Goldman Sachs both reputational risk and possible follow-on lawsuits related to this action – with the former likely to be the major cause of subsequent market reaction.
- Goldman’s response to the SEC is on the link and highlights that it lost \$90 million on the transaction compared to the fee received of \$15 million.
- [http://blogs.wsj.com/deals/2010/04/19/goldman-responds-again-to-sec-complaint/?mod=yahoo\\_hs](http://blogs.wsj.com/deals/2010/04/19/goldman-responds-again-to-sec-complaint/?mod=yahoo_hs)
- The timing of the release is close to the upcoming vote Dodd (Volcker rules) Bill which seeks to strengthen regulation, limit proprietary trading and protect consumers and in our view now looks increasingly likely to pass in some form with the Goldman allegations likely to prompt the call for tighter regulations of the derivatives markets and for more trading to be on exchanges and through clearing-houses (rather than over-the-counter), which in our view, would bode well for the vertically integrated securities exchanges.
- **POSCO**, the leading South Korean steelmaker, reported significant year on year operating profit for the first quarter of 2010, broadly in line with the analysts’ expectations. POSCO marginally raised its production forecast by less than 1%, while the revenues are expected to grow by about 8%, driven by higher steel prices.
- **Steelmakers** all around the world are under raw materials pricing pressure as spot iron ore and coking coal prices more than doubled over the last twelve months and the biggest iron miners made a switch to quarterly contracts and pricing from the previous benchmarking system. POSCO is limited in its ability of passing through the increased raw materials costs as some of its customer base, in particular the shipbuilding and construction companies, is still struggling with the effects of the economic crisis.
- The company’s management is expecting the global steel industry to continue its recovery throughout the year, supported by sustained demand in China in particular, and it forecasts tight raw materials markets in the short term. In an effort to mitigate its dependence on the seaborne iron ore market, POSCO aims to acquire and develop its own iron ore assets, target areas being Australia and India. However, a significant impact in this sense won’t be felt sooner than four to five years from now, given the long lead time for the mining capex.
- **Syngenta**, the global top crop protection and seeds supplier, reported a small decline in sales in the first quarter compared to the first quarter of 2009, primarily due to a late start in the northern hemisphere planting and to a tough comparative quarter. However, the management presented a positive outlook for the remainder of the northern hemisphere season as well as good progress in rolling out its leading triple stack technology in corn and biotech traits in soybeans. The successful introduction of the new technology will likely be beneficial to the firm’s profit margins in seeds.
- In crop protection, sales growth was particularly strong in Latin America (up 16%) lead by fungicide application in soybeans, followed by Europe (up 5%) and Asia (up 4%). Sales were weak in NAFTA partly due to a late season and



partly due to high channel inventories, especially in the non-selective herbicides. Seeds sales were affected by some pre-buying activity in the fourth quarter of the last year offset by good recovery of sales in the diverse field crops (oilseed, sugar beet, etc.) in Eastern Europe and robust sales of high margin vegetable seeds in Asia. The management expects the performance to be positively impacted by lower raw materials costs, favorable currency movements and margin enhancement in seeds.

- **Roche Holdings'** sales beat the consensus expectations in the first quarter of the year due to strong performance of its leading cancer franchise drugs (Herceptin – breast cancer, Rituxan – rheumatoid arthritis and Avastin – lung, colorectal and kidney cancer). Tamiflu (re H1N1) continued to be a key selling drug for the company during the quarter, yet it is expected to see a drop in revenues in the coming quarters as most major orders have been filled. The diagnostics division delivered a strong performance as well, up 9% year on year.
- The company sees significant additional revenues for its blockbuster cancer drug, Avastin, being extended to help treat ovarian cancer (currently in the Phase III of the approval process) as well as from increased sales outside of US. Positive developments are also expected around the taspoglutide (Phase III) drug, an insulin analogue (diabetes), as well as around ocrelizumab (Phase II - multiple sclerosis) by the end of the year.
- **Roche** guided for mid single digit sales growth for the year and a slight reduction in the research and development expenses, which would lead to a double digit earnings per share growth for 2010. The company aims to use its significant cash inflows to repay about a quarter of the debt used to acquire Genentech, by the end of the year.
- **Carrefour**, the second largest retailer in the world, issued a robust sales report last week, posting its first increase in its underlying quarterly sales in six quarters. Sales in its 15,500 stores in over 35 countries grew by 5.5% in the quarter, exceeding to some extent the analysts' expectations. As consumers all over the developed world struggle with the effects of a protracted recession, the group's sales were boosted by increased spending in the developing countries. Company stores in Latin America experienced sales growth of 10.1%. In France, the company's biggest market, the Carrefour banner stores managed to make a 0.8% market share gain in a very competitive environment.
- The solid cash generation allowed the company to announce a share buy-back of up to 6% of its outstanding shares over the next 12 months, with very limited impact on its financial flexibility. Fitch reacted to the news by announcing that the buy-back program would not impact Carrefour's 'A-' credit rating and its stable outlook. The firm's finances are being strengthened by a rationalization plan which includes exiting certain underperforming markets and focusing its efforts in the key domestic market, as well as overseas in high growth markets such as Brazil and China.
- **TD** – has acquired 69 stores and 80 ATMs in Florida through an FDIC-assisted transaction. The acquisition includes certain assets and liabilities of Riverside National Bank of Florida, First Federal Bank of North Florida and American First Bank. We understand the FDIC will cover 50% of Loan Loss Provisions up to US\$518m ( i.e. 442m for Riverside, US\$ 58m for First Federal and US\$ 18m for AmericanFirst ) and 80% of Loan Loss Provisions in excess of these thresholds. The transaction has a minimal impact on TD's capital and earnings per share and results in additional assets of US\$ 3.8 billion ( including loans of US\$ 2.1 billion covered in the above mentioned loss sharing agreement) and US\$ 3.1 billion in deposits – which equates to approximately 4% of TD's total deposits in its US retail franchise. This is a modest acquisition – but is consistent with CEO Ed Clark's earlier comments this year that TD would continue to explore such opportunities with the FDIC ( the US' Federal Deposit Insurance Corp.)
- **Unicredit** – UCG's board yesterday approved the “Banca Unica” project and the merger of 7 subsidiary banks with the parent company. According to our conversations with UCG's CEO, the project should help customer satisfaction, and ensure a more efficient organization granting additional authority to the networks. As requested by the foundation shareholders of UCG, the board has also decided to appoint a Country Chairman for Italy, Gabriele Piccini, currently CEO of UniCredit Banca and Head of the Italy Retail Network. He will report to Deputy CEO Nicastro (not directly to CEO Profumo).
- **Barclays Capital** has begun a major push into Australia's financial markets, launching a foreign exchange and interest rate trading business in Sydney. The move is the latest by global securities firms seeking to expand in Australia's bond market, which is drawing capital flows from global investors attracted to the country's high-yielding, highly rated securities.
- **Barclays** – the US owners of Liverpool Football Club (Messrs Hicks and Gillet each own 50% stakes) have appointed Barclays Capital, the investment banking arm of the UK Bank, to help find a buyer for the 120 year old Premiership soccer club.
- **Barclays Capital and HSBC** – The Moroccan finance



ministry has indicated that it is planning to issue in the coming weeks a \$500m Eurobond on the international financial market. Barclays Capital, HSBC & Natixis have been picked by Morocco to raise the fund, a press release of the ministry said, recalling that a similar operation was launched in 2007. The move came after Standard & Poor's (S&P) has raised Morocco's long and short-term foreign currency sovereign credit ratings to BBB- and A-3.

- **Macquarie** – The aircraft leasing unit of embattled American International Group has agreed to sell 53 passenger jets to Australia's Macquarie Group to raise a much-needed \$2 billion in cash.
- **JPMorgan Chase** reports Q1 EPS \$0.74 vs Reuters \$0.64 (\$45.87)
- Company reports revenues of \$27.67B vs Reuters \$26.21B.
- **Maquarie** agreed to buy a minority stake in a Hong Kong-based foreign-exchange trading unit of local brokerage firm Sun Hung Kai Financial. The companies declined to disclose both the size of the stake and the price Maquarie will pay for it.
- **Thomson Reuters** to overhaul markets division – we understand that product launches from next week through the fall will replace traditional terminal commands with online search in an attempt to reach out to young investment bankers. The effort is also intended to differentiate Thomson Reuters from Bloomberg. The company will “radically slim down” by reorganizing its sales and support staff, although it plans to increase headcount “quite a lot” this year.
- **Nestle** – the world's largest food producer has, (according to the Financial Times), indicated its board was examining the future of its holding in L'Oreal “with the great attention”. It currently owns about 29% and has agreed with the cosmetics makers, 87 year-old major shareholder, Liliane Bettencourt, not to raise the stake until after her death.
- **Santander:** According to the Spanish press quoting Mr. Alfredo Saenz (SAN's CEO), the bank should take advantage of the weakness of rivals in mature markets such as Spain, and boost its share of client funds, including deposits. The bank's offer in Spain of a deposit yielding 4% is part of its strategy of boosting its market share to 15% over the next five years from 10% now. Moreover, he added that the bank also seeks to improve its cost to income ratio to 35% from 45% in 2010.
- **BBVA** : Bank of America, through its subsidiary Merrill Lynch International, has acquired a 3.491% stake in BBVA.
- **National Australia Bank's** A\$ 12.2 billion bid for Axa Asia Pacific (AXA) has been blocked by the Australian

Competition & Consumer Commission. A rival offer from AMP Ltd has been cleared by the regulator, and AMP says it believes it can “put forward a proposal that is financially disciplined and will create value for its shareholders.” NAB says it will review the ACCC decision.

- **Vodafone** – has announced it will be offering mobile data price plans for the 3G version of the iPad in Australia, Germany, Italy, Spain and the UK from the end of May.
- **Prudential** – Financial Times article last week mentioned that Prudential may look to sell to investors minority-stakes in some of the life insurance divisions that it will acquire from AIA. Countries specifically mentioned are China, Thailand and Malaysia. The article suggests the purpose of this would be to help upstream capital to the group by easing restrictions on dividend payments to the Pru. A separate FT article says that the “pressure is intensifying” to convince investors to back the Pru's proposed acquisition of AIA, before a shareholder vote in the next 6 weeks. Rob Devey, currently the Prudential's UK Chief Executive has been appointed to head the integration of AIA. Before joining the Prudential, Rob Devey led the integration of retail banking at Halifax and Bank of Scotland and the direct channels of HBOS and Lloyds Bank when they merged. He was also a specialist adviser in financial services integrations while at the Boston Consulting Group.
- **Nordea** – It's reported that Nordea is interested in buying the retail operations of Parex (Latvia bank that was nationalised in 4Q08 following a run on deposits). Article says that Nordea would bid in tandem with Morgan Stanley and Peter Hambro that are interested in other parts of the business. Other Nordic Banks, and also Santander, have previously been linked with Parex.
- **Royal Bank of Scotland** – The newspaper ‘Mail on Sunday’ reports that RBS is considering suing Goldman Sachs over ~£550mn lost in the alleged CDO fraud. Sources close to RBS said it was premature to be talking of legal action, but refused to rule out the possibility.

## Economic Activity, Consumer and Business Conditions

- **Greece:** has taken more formal steps towards accessing the funding from the Eurozone and International Monetary Fund.
- **Australia:** Demand for home loans continued to wane in February, even before the two latest interest rate increases.



Just 50,287 mortgages were granted to owner-occupiers in February, down by a seasonally-adjusted 1.8% compared to January, the fifth consecutive month of decline. First homebuyers made up 18.1% of loans granted in February down from a record high of 28.5% in May 2009.

US construction sector over the worst: The NAHB housing market index, building permits and housing starts all showed some improvement, if from low levels. Home sales probably surged in March and April due to the imminent expiry of tax credits. That probably also means weaker activity in the summer. But overall, housing clearly seems past the worst and should hopefully no longer detract from growth, in fact supporting it in Q1 and Q2.

## Financial Conditions

Policymakers continue to accommodate a recovery in bank profits. The U.S. 2 year/10 year treasury spread is 2.82% and the U.K.'s 2 year/10 year treasury spread is 2.86% - enabling financial services companies' assets booked at these levels, to be very profitable, so enabling them to accelerate the absorption of anticipated consumer credit losses.

Our concerns are mostly focused around the later cycle issues facing financial services companies – particularly commercial real estate and unsecured consumer loans/credit card loans. However, commercial real estate exposure is more acutely held by US regional banks – rather than larger more diversified global financial services companies. The number of small U.S. banks failing continues to grow (50 to-date in 2010 and 140 in 2009) but their franchises are being acquired/absorbed as convergence of the financial services industry accelerates – favouring we believe the stronger, better managed banks. Typically banks acquiring collapsed bank franchises from the Federal Deposit Insurance Corporation (FDIC), such as TD (refer to highlights above) are paying little or no premium for deposits, assets are purchased at a discount and are covered by loss sharing agreements – so that such deals can be expected to be immediately accretive to earnings per share. We understand however that the FDIC is changing the loss share arrangement on assisted deals from absorbing 95% of losses down to absorbing 80% although this is still attractive to acquiring banks it does probably lower the Internal Rate of Return.

A concern which remains is the extent to which loan modifications are an exercise in loss deferral but for the larger franchises

the quantum of proactive provisioning continues to act as a differentiator of quality which we believe has still to be fully appreciated.

The VIX (volatility index) is 18.7 substantially below the levels experienced last August/September (notwithstanding the Goldman Sachs' headlines and well off the highs of 70-80 witnessed late September/October). While, by its characteristics, the VIX will remain volatile, it is we believe further evidence of markets reacclimatizing to risk – typically we believe a VIX level below 25 augurs well for quality equities.

We believe the next few years will highlight the growing polarization between strong and weak institutions. Financial services companies that have capital strength will buy assets from those required to divest. Companies that have a strong presence in emerging markets will likely grow quicker than those that do not. Banks that have strong retail deposit franchises will take market share from those that rely on wholesale markets to fund loan growth at attractive margins. Financial services companies that have breached client trust will keep losing business to those reputations that have been enhanced by the crisis. We believe all the Funds are extremely well positioned to benefit from the strength of their portfolios of strong, dominant, attractively priced financial services companies.

# Market Commentary



PORTLAND  
INVESTMENT COUNSEL™

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## Closed-End Funds

Spreads on the closed-end funds are narrowing but remain, in our view, very attractively priced to purchase.

The Portland Investment Counsel Inc. 2009 Closed End Annual Reports are now available on the web site. Below you can find the link to access the closed end annual report.

[http://www.portlandic.com/Info.aspx?disp=Financial\\_Reports](http://www.portlandic.com/Info.aspx?disp=Financial_Reports)

At the close of business on Fridays and at the end of each month we publish the Net Asset Values (NAV) of our funds onto our Portland website at <http://www.portlandic.com/Funds/WeeklyPricing.aspx>. The NAV for the AIC Global Financial Split Corp. can be found on the AIC/Manulife website at <http://www.aic.com/EN/PricePerformance/AICClosedEndFunds/Pages/Price.aspx> and the Copernican World Financial Infrastructure Trust, Copernican World Banks Split Inc. and the Copernican International Financial Split Corp. can be found on the Copernican website at <http://www.copernicancapital.com/Funds/WeeklyPricing.aspx>.

A handwritten signature in black ink, appearing to read "Chris Wain-Lowe".

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Certain statements included in this document constitute forward-looking statements, including those identified by the expressions "anticipate," "believe," "plan," "estimate," "expect," "intend" and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the Portfolio Management team's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Portfolio Management team has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.

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